

# *The City of Fairfax*

*Office of the City Manager*



February 25, 2014

The Honorable R. Scott Silverthorne, Mayor  
and Members of the City Council  
City of Fairfax  
Fairfax VA 22030

RE: City Manager's Recommended FY14-15 Budget Transmittal Message\*

Dear Mayor Silverthorne, Members of the City Council, and City Residents,

On behalf of the city's management team, I am pleased to submit for your review and future action the proposed FY 14-15 budget for the City of Fairfax for the fiscal year beginning July 1, 2014. The recommended budget is "balanced", meaning that projected current revenues equal or exceed projected expenses for FY15.

The proposed budget incorporates policy guidance given by the City Council in December, 2013, to the City Manager for the preparation of the FY15 city budget. (see pp. A-14) Further, the proposed budget adheres to the City Council's adopted fiscal policies found in City Resolution # R-08-38 (pp. A-11)

The proposed budget recommends total spending (all funds) of \$161,200,026, which is a decrease of 8% from the current FY14 budget. Spending for the General Fund, which accounts for the majority of city services not accounted for elsewhere, is recommended to be \$128,505,003, an increase of 2.3% over FY14.

The city continues to recover from the recession. The budget for FY15 reflects the potential for increased revenues from a strengthening local and regional economy and the much needed receipt of transportation monies due to the passage of statewide transportation legislation in 2013. Local sources of revenue such as the Real Estate (RE) tax, local sales and use and Business Professional and Occupational License (BPOL) taxes are trending more favorably than in years past. The city's largest source of revenue, the RE tax, is projected to see its largest year over year increase in several years due to the increase in residential assessments of 4.5%. These,

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\* The content of this transmittal letter reflects the recommended budget numbers. The remainder of this document reflects the adopted budget, as modified by City Council on April 30, 2014.

among other improving revenue sources, have provided the additional capacity in FY15 for the city to maintain, and in some cases, improve its programs and services, increase investments in the maintenance of our public infrastructure, add minimal personnel resources to improve services delivery and improve our ability to communicate with city residents.

The following summary presents key elements impacting the General Fund and other funds in the construction of the FY15 recommended budget.

1. The city sold its 60 year old water treatment system in Loudoun County and its in-city distribution system in 2014; city residents now are customers of Fairfax Water. The enterprise fund that previously accounted for water system activities “purchased” a number of services from the city which created a source of revenue for the General Fund. The loss of that income to the General Fund from the water enterprise fund amounts to \$728,000. While the loss of this revenue creates a revenue void that must be adjusted over time, City residents will reap a dividend as a result of the sale. No longer than three years after the sale of the system, city residents’ water rates will be aligned with the Fairfax Water rate, projected to be significantly lower than city residents are currently paying.
2. Pension payments to Virginia Retirement System (VRS) and the city’s supplemental retirement system continue to require the investment of the largest single year over year expense increase in General Fund spending. Total payment to these two systems is forecast at \$6,985,453 in FY15, an increase of \$907,000 over current year levels. The city’s supplemental plan is considered to be fully funded as the city has a strong track record of meeting its pension obligations. Over the past three years, contributions to the two systems have risen from \$4.2 million to \$6.9 million.
3. The budget team has recommended the addition of a net 3.5 FTE’s at a cost of \$226,000. The following recommended resources are being added, or deleted, from the FY15 budget:
  - a. One part-time employee to full-time in the Cable TV Division
  - b. One part-time Animal Control Officer to full time in the Police Department
  - c. One part-time Facility Coordinator to full time in Parks and Recreation
  - d. One part-time Information Technology Technician to full time in the Police Department
  - e. Addition of a Real Estate Appraiser 1 in the Finance Department
  - f. Deletion of one full time Fleet Mechanic in the Public Works Department
  - g. Addition of one Wastewater Maintenance Worker for Wastewater Fund
4. Similar to the current year, the recommended budget contains funding for a merit increase for eligible employees of 3.5% on their anniversary dates costing \$375,000. Fringe benefits and other miscellaneous adjustments will cost an additional \$217,000. There is no COLA adjustment included for employees in FY15.

5. The City School Board has approved a budget increase in the instructional contract with Fairfax County Public Schools for FY15 in the amount of \$451,000 to \$45,627,757.
6. The city's total debt service payment for FY15, including education, is \$13,139,126, a reduction of \$862,000 from current year levels. As a percentage of General Fund spending, payments for city-wide debt service have reduced from a high of 9.2% in FY07 to 6.09% for FY15. For a presentation of the city's debt amortization tables see Section J.
7. Repayment of the balance of \$500,000 to the city's General Fund has been included for FY15. A loan was made two years ago from the General Fund balance to front-end the payment of a RE tax refund due to the Army Navy Country Club.
8. Two cents of the recommended RE tax will be set aside for the Stormwater Fund. Localities in Virginia and elsewhere in the Chesapeake Bay region are facing unprecedented regulatory hurdles. The contribution of approximately \$1,128,000 annually into the Stormwater Fund allows the city to comply with these regulations in addition to funding an aggressive, catch-up, storm water infrastructure maintenance program.
9. Given the economic growth in a number of other city revenue sources, there is no recommended increase in the RE tax rate for FY15. Due to a healthy city-wide real estate tax base assessment increase of 3.3%, the additional revenue expected from the real estate tax, at current rates, is \$2.1m.
10. Three key revenue sources that are bellwether indicators of the direction of the city's local economy are projected to show significant increases. Sales tax is projected to rise from \$950,000 to \$11.1 million for FY15. BPOL and personal property taxes are expected to see increase of \$555,000 and \$350,000 respectively over FY14 levels.
11. The city's auditors have recommended the establishment of a School Tuition Reserve as part of the General Fund. The FY15 budget includes an amount equal to 1 cent on the RE tax rate added to the General Fund reserve. Following the auditor's recommendation, the City Council included a similar directive to staff in their adopted budget guidelines for FY15.
12. The city's budgetary process entails the use of year end surplus funds, if any, as a revenue source for the next fiscal year. This is a prudent practice as it reduces the pressure for needed tax increases in the following fiscal year. A portion of the surplus generated at year-end FY14 will be applied to FY15 fund balance in the amount of \$1,737,615 so as to maintain the ending FY15 General Fund balance at 10%, the recommended minimum.

13. Revenue from charges for ambulance transports will be reduced in FY15, and annually thereafter, by approximately \$250,000, due to a modification in the billing process going forward.
14. Non-education contracts with Fairfax County are expected to rise \$144,000 in FY15.
15. Cumulative increases in all types of state-aid are expected to climb by \$340,000 in FY15 over FY14 budgeted totals.
16. Three items of relatively minor financial impact are included in the FY15 budget based on their substantive benefit to the community:
  - a. Housing Renaissance Corporation; a continuation of an annual appropriation of \$50k. As of February 2014, the HRC has accumulated funds of \$327,000 (\$171,000 committed) for use as loan reductions for qualifying residential housing upgrade applications. Since 2001, the HRC has provided loans to 187 city residents to upgrade their homes.
  - b. Restored funding in the amount of \$45,000, for the city's former practice of mailing the monthly Cityscene to each residential and business address in the city. While the city's use of electronic communication with residents has grown, the interruption of the delivery of the printed version of the Cityscene to each home has limited the city's ability to communicate with its residents as before.
  - c. An impact analysis model for economic development. (\$55,000). The city will commission a study of best practices to better understand the economic impact of land use decisions enabling it to recover appropriate fees related to the impacts of development.
17. Due to the beneficial impact of new regional transportation funding sources, the Community University Energysaver (CUE) bus system (the Transit Fund) will not require General Fund support, as previously needed, because additional funding is available from the Northern Virginia Transportation Authority (NVTa).
18. A "Transportation Tax Fund" has been added to the budget to replace, broaden and account for the activities currently in the FY14 "Commercial Property Tax/Transportation Fund". This fund will continue to account for the funds collected by the city under the Commercial and Industrial (C&I) Tax which is currently levied on those property classifications at a rate of 5.5 cents per hundred. No change in the rate is recommended for FY15; however, the proposed budget recommends the use of other funds (on-hand funds from the to-be-closed Water Fund) to achieve C&I tax equivalency of 12.5 cents for FY14 and FY15 required to maximize the receipt of regional transportation funds. Revenues from the C&I tax (NVTa 30% funds), or equivalent from a dedicated source, and matching NVTa 30% funds afford the city transportation infrastructure opportunities not possible in prior years and will have a transforming effect on the city's ability to keep pace with the needs of its



transportation network. For every dollar of C&I tax or equivalency (up to the 12.5 cent maximum) the city will receive just over one dollar of NVT 30% funds. The total estimated annual revenue to be received by the city at the maximum rate (12.5 cents or equivalent) is approximately \$4.7m.

19. Water and Wastewater System. As mentioned above, the city sold all water treatment and distribution system assets early in 2014 enabling city residents to become retail water customers of Fairfax Water. For FY15, the Water Fund has been decommissioned and will no longer appear in the annual budget except for a close out reference in FY15. The Wastewater Fund will continue to exist and function as an enterprise system, as before, since the city will remain the owner of the city's wastewater system. By contract with the city, Fairfax Water will bill and collect fees from city residents for the city-provided wastewater services; then those collected fees will be remitted to the city. The city will continue to set an annual rate for wastewater services. For FY15, the recommended rate increase for Wastewater services is 10%. Annual increases in wastewater rates in the 10-12 % range will be necessary over the next several years to generate sufficient funds for debt service related to improvements at the Noman Cole Wastewater Treatment Plant, with the estimated city share at \$40m, as well as to pay for ongoing capital needs of the in-city wastewater collection system. (Note: there will be no rate increase for water services in FY15 inasmuch as the rate is now frozen at the FY14 former city water rate level until the city transitions to the regular Fairfax Water rate in three years or less from now.)
20. Due to the city experiencing significant growth in the RE tax base this year which generates approximately half of its revenue, and having carefully managed other revenue sources so that, combined with a conservative spending plan for FY15, it is possible to balance the recommended FY15 budget without a RE tax rate increase. The RE tax rate for FY15 is recommended to remain flat at \$1.06 per \$100 of assessed value. (Two cents for the Stormwater Fund and the equivalent of one cent for a School Tuition Reserve are included in the \$1.06 rate.) Nonetheless, due to rising assessments, there will be a RE tax increase at the flat \$1.06 rate in the amount of \$190 or 4.5% for an average priced residential property assessed at \$400,000. Also, there is no recommended increase in the C&I RE tax for FY15.
21. The Capital Improvement Program transfer from the General Fund is recommended at \$5,596,098 which is 4.4% of General Fund spending. Requests totaling \$9,167,000 were received from department managers prior to prioritization. City Council policy recommends a minimum transfer of 5%. Since 2008, the transfer from the General Fund has averaged 2.8%. The Capital Improvement Program (CIP) is the source of much of the city's pay-as-you-go infrastructure spending to include the city's street asphalt overlay program, park maintenance, police cars, fleet vehicles, brick sidewalk maintenance, bullet proof vests, radio equipment, building maintenance and the like.

The past decade has witnessed the implementation of an aggressive CIP in the city with the renovation of, or new construction of, virtually every public building in the city. In addition,

the city played a key role in the construction of Old Town Village that has reenergized the downtown. The city's first major project (and easily the most complex) of undergrounding overhead utility lines in Old Town Fairfax is complete. Not many communities can claim such a record of achievement. Yet, as we look down the road for the next five years, the sense of excitement and anticipation of what is to come is even greater.

Major mixed use developments are on the horizon that will begin to fulfill the promise of the Fairfax Boulevard Master Plan, the \$20m Northfax drainage improvement project is underway creating significant opportunities for public and private investment on Fairfax Boulevard, a beautiful new "central" park will soon be under construction in the historic downtown, our 90 year old downtown gateway bridge on Chain Bridge Road at Rust Curve will soon be a memory to be replaced with a safe and modern facility while presenting an appearance that respects the city's heritage, and there is renewed interest in the redevelopment of various strategic real estate parcels throughout the city. The future is indeed bright for the city's economy.

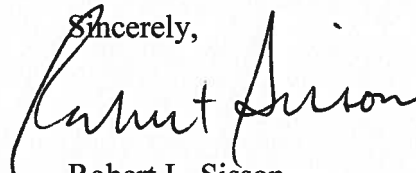
The city's management team and all city employees work hard every day to make the city's delivery of services to our residents both efficient and effective and in concert with the vision of the community we all want to achieve.

Our city's tradition of transparent governance and careful fiscal management has enabled the city to earn and preserve the coveted AAA bond rating, reflecting the achievement of the highest possible standard of civic stewardship. On behalf of all city employees, I trust that the recommendations contained in this spending plan for FY15 will enable a continued dedication to careful fiscal stewardship and to the building of a community whose quality of life is unexcelled.

I want to express appreciation to the Honorable Mayor and City Council for establishing high expectations with regard to the operation of our local government and for providing the resources to achieve a standard of excellence. We look forward to our discussions with you and every resident concerning this recommended budget.

There are many on our team to thank for their hard work in preparing this budget document. For a list of those individuals, please refer to the Acknowledgements section found on pp. A-36.

Sincerely,

A handwritten signature in dark ink, appearing to read "Robert L. Sisson", written in a cursive style.

Robert L. Sisson  
City Manager